

April 16, 2002

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

FISCAL YEAR 2002-03 PROPOSED COUNTY BUDGET (3-VOTES)

The FY 2002-03 Los Angeles County Proposed Budget total of \$16.3 billion reflects a decrease of \$205.0 million in total requirements. General County funds (including the General Fund, -\$316.0 million; Debt Service Funds, -\$2.6 million; and Hospital Enterprise Funds, \$148.6 million) reflect a net decrease of \$170.0 million. Special Districts/Special Funds also reflect a reduction in total requirements of \$35.0 million.

TOTAL REQUIREMENTS - ALL FUNDS - 2002-03 (billions of dollars)				
Fund	2001-02 Budget	2002-03 Proposed	Change	% Change
Total General County	\$ 13.521	\$ 13.351	\$ -0.170	-1.3
Special Districts/Special Funds	2.961	2.926	-0.035	-1.2
Total Budget	\$ 16.482	\$ 16.277	\$ -0.205	-1.2
Budgeted Positions	95,696.9	93,354.3	-2,342.6	-2.4

Budget Overview

The FY 2002-03 Proposed Budget emphasizes the County's conservative budgetary approach in response to the recent recession and uncertainty in the State budget. While the latest assessment is that the recession was relatively short and mild in comparison to previous experiences of the early eighties and nineties, its potential impact on the State and County budgets will extend well into the coming year and possibly beyond.

The County faces the challenge of maintaining acceptable levels of service to the citizens of Los Angeles County while financial resources are dwindling as a result of the recent recession. Overall, the County General Fund forecast projected a \$57.0 million shortfall in FY 2002-03. In lieu of further reductions at this time, we have chosen to use available one-time FY 2001-02 Appropriation for Contingency funds to balance the budget.

The FY 2002-03 Proposed Budget maintains services essentially at FY 2001-02 levels for most departments while minimal funding has been recommended only for expansion of the most critical services. However, several departments have been required to eliminate positions and/or reduce services. The Proposed Budget reflects an overall decrease of 2,342.6 positions primarily due to reductions in the following departments: Public Social Services (2,086.0), Probation (81.0), Office of Public Safety (60.0), District Attorney (57.0), and Mental Health (47.0). If revenues continue to decline, and/or the State imposes additional funding reductions, further curtailments will be required.

Funding recommendations for FY 2002-03 include continuation of the multi-year effort to reduce reliance on Los Angeles County Employees Retirement Association (LACERA) excess earnings; minimal increases to enable departments to maintain pace with caseload increases; and increases in salaries and employee benefits from negotiations with the majority of the County's bargaining units.

The FY 2002-03 Proposed Budget also includes ongoing funding for the County's Security Action Plan, which was developed in response to the September 11th terrorist attacks. Additionally, funding is included in the Provisional Financing Uses budget for 1) training, maintenance, and operational costs in developing Phase I of the Integrated Data Warehouse that will increase departments' access to financial data; 2) first-year costs associated with the development of a new countywide financial system, the Los Angeles County Administration System (LACAS), to replace the existing Countywide Accounting and Purchasing System (CAPS); and 3) third-year funding for the District Attorney for increased workload costs associated with the City of Los Angeles Rampart investigation.

The County will face several challenges in FY 2002-03:

- Faced with a projected shortfall in FY 2003-04 of approximately \$365.0 million, the Department of Health Services is seeking to significantly alter the design of its health care system during FY 2002-03, and will recommend actions for restructuring in consideration of available resources, patient needs, and utilization patterns.
- Department Shortfalls – Due to anticipated funding shortfalls, several departments will be required to curtail existing services. These departments include Public Social Services (-\$100.0 million), Sheriff (-\$49.6 million), Mental Health (-\$32.9 million), Probation (-\$10.0 million), District Attorney (-\$8.1 million), and Public Library (-\$7.0 million).
- Proposition 172 Revenues – As a result of the downturn in the economy, the County is currently experiencing an estimated shortfall in Proposition 172 revenues exceeding \$30 million. Economic indicators show that the economy will rebound in the area of sales tax revenues by the end of summer. The budget for FY 2002-03 assumes no growth in sales tax revenues.
- Realignment – The FY 2002-03 Proposed Budget reflects a \$13.0 million increase in budgeted Sales Tax Realignment revenues, primarily for the Health and Mental Health accounts due to unanticipated growth revenue received for FY 2000-01, which increases the base. An increase of \$22.2 million in Vehicle License Fee Realignment revenue has been budgeted, primarily due to increased vehicle sales in FY 2001-02. This includes \$12.2 million for Mental Health, \$9.0 million for Health, and \$1.0 million for Social Services.

Implementation of Countywide Strategic Plan

The FY 2002-03 Proposed Budget reflects continued pursuit and implementation of the County's Strategic Plan, including efforts to update and expand awareness about the Plan, and completion of additional departmental strategic plans consistent with the County Plan. Strategic planning is particularly critical during challenging fiscal climates similar to the one currently faced by the County, as it facilitates a critical thinking process which focuses limited resources on those activities which best assist the County in realizing its Vision and long-term goals, including fiscal responsibility.

Consistent with the increasing alignment of the Strategic Plan with the budget process, proposed funding recommendations now cite specific Strategic Plan Goals and Strategies when applicable. Performance measures included in the budget also reflect greater alignment with programs, which is consistent with the Strategic Plan Goal 1, Strategy 3 to evaluate services based on results.

The following are specific examples of funding recommendations in the FY 2002-03 Proposed Budget which support the Strategic Plan Goals for Service Excellence, Workforce Excellence, Organizational Effectiveness, or Fiscal Responsibility (four Organizational Goals), or Children and Families' Well-Being (one Program Goal):

- **Goal No. 1 – Service Excellence: Provide the public with easy access to quality information and services that are both beneficial and responsive.**
 - Seamless service delivery is promoted through the continued implementation of the Substance Abuse and Crime Prevention Act of 2000 (Proposition 36) by the collaborative efforts of various agencies (Department of Health Services, Probation, Superior Court, the Countywide Criminal Justice Coordination Committee, and various community-based treatment providers). This program is currently operating at 26 court sites and provides drug treatment and probation supervision services. The Proposed Budget includes additional State revenue of \$7.8 million to enhance contract treatment services and \$2.5 million for 16.0 additional positions for probation supervision and related services.
 - Seamless service delivery is also promoted through the Wraparound Program, which allows greater flexibility in the use of foster care dollars to respond to the multiple and complex needs of children. These children, ages 8-17, are in foster care or are on the verge of being placed in homes or institutionalized. This Program allows the Departments of Children and Family Services, Health Services, Mental Health, and Probation to individualize services and coordinate the necessary resources to support children in their homes and communities. The budget includes \$2.8 million to fund Wraparound Program infrastructure costs.

- To improve its responsiveness to the public, the Department of Public Social Services' (DPSS) budget reflects 99.0 additional positions and \$5.0 million in appropriation as a result of a 13 percent projected increase in the In-Home Supportive Services (IHSS) caseload.

- **Goal No. 2 – Workforce Excellence: Enhance the quality and productivity of the County workforce.**

- To enhance the quality and productivity of the County workforce, the Department of Human Resources:
 - Expanded the County Training Academy's Leadership Essentials for County Managers' Certification Program to include a broader range of managers. Funded in part by the Quality and Productivity Commission, the program will help ensure firm grounding for critical succession planning in a quickly evolving workforce;
 - Plans to survey all County employees to help target training and development strategies that respond directly to the needs of County employees and make them more productive in the workplace; and
 - Plans to develop an employee orientation program that includes various informational materials and a County video presentation as a comprehensive effort to communicate the values and behaviors of the County Vision Statement and the Strategic Plan to new hires.

- To further enhance workforce quality and productivity, the Quality and Productivity Commission has led a renewed emphasis on best practices programs such as the Employee Suggestion Awards Program and various recognition events that highlight excellence by the workforce.

- To create a positive work environment, the Department of Public Social Services continues its aggressive Customer Services Training Program. The goal is to train all staff to effectively and efficiently deal with the public and to promote a more positive, customer service-oriented environment.
- To promote and encourage health awareness and well-being, the Labor-Management Advisory Committee on Productivity Enhancement presents periodic Wellness Fairs at various worksites demonstrating the County's commitment to preventive care for County employees.
- **Goal No. 3 – Organizational Effectiveness: Ensure that service delivery systems are efficient, effective, and goal-oriented.**
 - Improvement of internal operations is being pursued at the countywide level with the addition of \$11.5 million to develop and enhance the countywide financial system. Additionally, \$1.0 million is proposed to develop Phase I of the Integrated Data Warehouse that will increase departments' access to financial data.
 - Improvement of internal operations is being pursued at the department level with the addition of reimbursable funding of \$2.5 million and 6.0 positions for the Internal Services Department to support its purchasing and contract services efforts. An additional \$5.2 million is provided for the Department of Health Services to enhance information systems and professional services to support operations at LAC+USC, Harbor/UCLA, and Olive View Medical Centers.
- **Goal No. 4 – Fiscal Responsibility: Strengthen the County's fiscal capacity.**
 - To invest in public infrastructure, the FY 2002-03 Proposed Budget reflects \$480.9 million to meet high-priority health, public safety, recreation, and other needs. Also reflected is \$1.2 million for the Music Center to operate the long-anticipated Walt Disney Concert Hall.

- To further invest in public infrastructure, the Department of Public Works' budget reflects 1) \$12.0 million from the Flood Control Fund for the Santa Anita Dam Spillway and Seismic Rehabilitation Project and the Sun Valley Watershed Management and Replenishment Project; and 2) \$3.6 million from the Road Fund for building and improvement projects including maintenance and repairs of various road maintenance yards/facilities, operational costs, and rehabilitation of underground tanks.
- The Beaches and Harbors' budget reflects the Department's innovative efforts to more effectively manage their resources by implementing an Automated Parking Equipment Program. These efforts will increase beach-parking revenues by \$0.4 million and minimize contract costs by \$0.2 million.
- **Goal No. 5 – Children and Families' Well-Being: Improve the well-being of children and families in Los Angeles County as measured by the achievements in the five outcome areas adopted by the Board: good health; economic well-being; safety and survival; emotional and social well-being; and educational/workforce readiness.**
 - In order to improve the social well-being of children and families in Los Angeles County, the Beaches and Harbors' budget reflects additional funding of \$377,000 to expand the highly successful, youth-outreach WATER and Day in the Marina programs, as well as the "Hot Summer Nights" concert series and the 4th of July Celebration.
 - Children's well-being will also be enhanced through \$85,000 in grant-offset funding for the Arts Commission to support artist training for in-school services and other arts education programs.

- Despite other program curtailments, the Department of Mental Health's budget reflects an expansion of \$32.8 million in contract programs for improvement of children's well-being. These programs include services provided under the State Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program, which promote children's good health, and the State-mandated Special Education Pupil Program, which addresses children's educational needs.
- To ensure children's safety, countywide funding of \$0.1 million is proposed for fingerprinting (LIVESCAN) departmental employees who directly interface with children.
- To coordinate, collaborate, and integrate services for children and families across functional and jurisdictional boundaries, the Child Support Services Department's budget reflects \$7.3 million for two other counties to utilize Los Angeles County's automated child support processing system. The budget also reflects \$3.1 million for statewide programs including Quality Assurance and Community Outreach. These expenditures are fully offset by State and federal funding.
- To provide access to health care for children and families through the Community Health Plan (Medi-Cal managed care) and the Healthy Families Program, \$19.2 million is reflected primarily for the capitation payments made to health care providers by the Department of Health Services' Office of Managed Care.

Children and Families' Well-Being

As a result of the partnership between the Children's Planning Council, the New Directions Task Force, and the Chief Administrative Office's Service Integration Branch, a restructured Los Angeles County Children and Families Budget is being presented for the first time as an addendum to the County's Proposed Budget. The FY 2002-03 Children and Families Budget begins the process of linking program performance measures with budget allocations, actual expenditures, and funding sources. The Budget provides a summary of efforts being taken to improve outcomes for children and families; a review of the current condition of children and families in Los Angeles County; an identification of County-administered programs; departmental program performance and results budget detail; and a summary of funding source and revenue stream data.

Included in the FY 2002-03 Proposed Budget is the estimated expenditure for children and family programs of \$4.8 billion, which accounts for 29 percent of the total County Proposed Budget of \$16.3 billion. Compared to the FY 2001-02 Adopted Budget allocation of \$4.9 billion for children and family programs, funding has decreased by 2 percent. Additionally, the proposed net County cost (NCC), for children and family programs is \$600.0 million, which represents 17 percent of the total NCC for FY 2002-03.

The Children and Families Budget will be evolving over the next five years to provide a comprehensive program performance and results budget. Full implementation of the restructured Children and Families Budget will provide the Board of Supervisors, County departments, and the community with a better understanding of how resources are being utilized, how well services are being provided, and whether the results of the services have been beneficial.

Unincorporated Area Services

The objective of the Strategic Plan for Municipal Services to Unincorporated Areas, adopted by your Board on July 3, 2001, is to improve the delivery of, and accountability for, services provided to the unincorporated communities of Los Angeles County. During the last year, through a collaborative process that included County departments and field deputies of your Board, detailed implementation plans were prepared and candidate communities were selected for piloting the service models.

In addition, work was begun toward development of performance measures to test the effectiveness of the service enhancements resulting from implementation of the models. Development of a survey to measure unincorporated area residents' satisfaction with County municipal services is also underway. In FY 2002-03, actual implementation activities for the various models will commence; data will be collected to determine if performance measures are being met; and the survey of residents' satisfaction with County municipal services will be conducted and analyzed.

Summary of Funding Recommendations by Major County Program Area

Beyond the funding recommendations highlighted above, the following summarizes other key recommendations reflected in the Proposed Budget by major County program area.

Public Safety and Justice Services:

- The Sheriff's budget includes absorption of many required cost increases, which will be difficult to attain without programmatic curtailments of approximately \$49.6 million. Significant cost increases are in the areas of workers' compensation, retiree health insurance, and two major settlements by the Department. In addition, the Sheriff is committed to reimbursing the County General Fund the remaining balance of \$12.7 million while remaining within budget, as a result of a \$25.3 million over expenditure in FY 2000-01. The Sheriff's Department is developing strategically planned curtailments to minimize service level impact.
- The District Attorney's budget reflects the deletion of 70.0 positions and a reduction of \$8.1 million primarily to offset cost increases in fixed employee benefits, a reduction in various revenue sources including the Community Law Enforcement and Recovery Program, and a decrease in reimbursable revenue from the Department of Public Social Services and the Department of Community and Senior Services for Welfare Fraud and Elder Abuse Fraud, respectively. The decrease is partially offset by the addition of 13.0 grant-funded positions for the Automobile Insurance Fraud Program.
- The Fire Department's budget continues all current emergency and support services within available resources. Reflected for the third consecutive year is the continuation of the Fire Department's Budget Correction Plan initiated in FY 2000-01 to mitigate rising costs and ensure they remain financially self-sufficient.

The issues with the greatest potential for a major positive or negative financial impact on the Fire Department are the recovery of retroactive Educational Revenue Augmentation Fund (ERAF) funding from the State and the reversal of an adverse State Controller audit finding. Simply stated, the return of the ERAF funding would provide the Fire Department approximately \$100.0 million in one-time revenue. The adverse audit finding would negate this additional revenue, and cause an annual ongoing revenue reduction of \$11.0 million beginning FY 2002-03. If full funding does not materialize by July 1, 2002, curtailment plans must be implemented to ensure expenditures are in line with available revenues.

- The Probation Department's budget includes absorption of additional costs primarily attributed to an anticipated 40 percent increase in workers' compensation costs and disability benefits extended to probation peace officers under AB 1387, Public Employee Disability Benefits. Consequently, several programmatic curtailments totaling \$10.0 million are necessary and will result in 1) the closure of a probation camp; 2) the elimination of the Work Furlough Program, the Expedited Probation Intervention and Collection Program, and the Community Outreach unit; and 3) a decrease in juvenile and adult supervision services, Pretrial Supervised Release Program services, and community-based juvenile delinquency prevention contract services.
- The Trial Court Operations' budget includes additional funding for State-mandated increases in Local Judicial Benefits and increased indigent defense costs; funding to offset the redirection of revenue from Trial Court Operations to Health Services due to a change in Vehicle Code Section 42007; and additional NCC for the fourth year of the five-year phased elimination of an operating transfer from the Criminal Justice Facilities Temporary Construction Fund. Additionally, it reflects a significant reduction in overall court fines and fees revenues, partially offset by an increase in AB 233 Trial Court Funding Act of 1997 Maintenance of Effort fines and forfeitures revenue attributable primarily to the increase in real estate-related filings.

Health Services:

- The Department of Health Services' budget maintains existing programs and includes revenue-offset program expansions, pending further development of the Department's Strategic Operational Plan and adjustments to be considered during the Final Changes phase of the budget process.
- The Proposed Budget reflects:
 - Use of \$272.6 million from the Health Services designation, primarily to offset the loss of 1115 Waiver revenues, one-time Trust Fund revenues, and SB 855 revenues; and to cover increased costs for negotiated increases in salaries and employee benefits and for fixed and other benefit increases.

- Deferred use of \$41.8 million in Tobacco Settlement funds until specific plans for program expenditures are developed within the guidelines of the Department's Strategic Operational Plan and considered by the Board during Final Changes.
- Implementation of the Board-approved In-Home Supportive Services' provider health benefits plan. The Department is providing the Department of Public Social Services funding to meet the NCC match requirement.
- A net increase of 8.9 positions, consisting of an additional 23.0 positions, approved by the Board to cover increased workload for the Community Health Plan, partially offset by a decrease of 14.1 positions primarily associated with the deferred use of Tobacco Settlement funds and a reduction in revenue for Adult Protective Services.

Social Services:

- The Department of Public Social Services' (DPSS) budget has been heavily impacted by the recent recession. Due to the State's fiscal crisis, the CalWORKs Single Allocation has been maintained at the FY 2000-01 funding level in the current fiscal year and for FY 2002-03. This will result in a projected \$100.0 million County deficit in the CalWORKs program in FY 2002-03. In addition, the Governor's Proposed State Budget has reduced funding for welfare-to-work activities and child care services. To remain within the proposed available State and federal funding for all public assistance programs, DPSS must eliminate 2,086.0 positions and reduce expenditures for substance abuse and mental health services, as well as the Non-Assistance Food Stamps, Medi-Cal, and Adult Protective Services programs. Over 1,600.0 of the eliminated positions are currently vacant. Layoffs are not anticipated as DPSS expects to reduce its staffing to the budgeted level through attrition.

DPSS and the Chief Administrative Office's Intergovernmental Relations staff continue to work on legislative strategies designed to improve DPSS' FY 2002-03 State funding allocations. Any known changes as a result of State budget developments will be reflected in Final Changes.

- The Department of Children and Family Services' (DCFS) Administration budget reflects increased appropriation of \$43.2 million and a net increase of 42.0 positions. DCFS proposed a number of other position and operational changes that are not included in the Proposed Budget. These requested changes will be reviewed and addressed in Final Changes. The DCFS' Administration budget includes an additional \$15.7 million to fund Board-approved contracts for Lead Wraparound Agencies.
- The Department of Mental Health's (DMH) budget reflects \$32.9 million in unspecified service reductions. This funding gap is primarily due to increased costs in pharmaceuticals, increased costs of inpatient acute psychiatric beds, and the elimination of \$29.6 million in prior-year one-time revenue. To address this shortfall, DMH is in the process of developing a curtailment plan that will reduce community outreach programs and reduce services to indigent clients. It is not anticipated that these curtailments will result in workforce reductions.

In order to minimize additional service reductions, DMH's budget also includes a number of very aggressive revenue generation and cost reduction proposals developed by the Department. The aggressive proposals include the generation of additional Federal Financial Participation (FFP) Medi-Cal revenues through increased focus on benefit establishment for indigent clients and emphasis on billing third-party payors. If these plans are not achieved, further curtailments may be required during FY 2002-03.

General Government and Other Services:

- The Public Library's budget reflects a dramatic reduction in services and supplies to offset higher costs for salaries and employee benefits, reduced fund balance, and a reduction in State support. The proposed spending reductions will drastically reduce the quality and quantity of services that the Library can provide. The Department will be exploring alternative budget-balancing proposals, which may include service hour reductions, library consolidations, or library closures, to present to your Board in Final Changes.

- The Internal Services Department's (ISD) budget reflects a NCC decrease of \$1.9 million, primarily attributable to a reduction in utilities expenditures and a net reduction in one-time funding for the countywide Security Action Plan. The Proposed Budget also reflects a \$6.3 million reduction in gross appropriation and deletion of 40.0 positions. This reduced spending plan mainly reflects reductions in the Job Order Contracting program, the elimination of custodial positions through attrition, and the elimination of some hard-to-fill positions.
- The Department of Public Works includes five General Fund budgets: County Engineer, Facility Project Management, Pre-County Improvement District Studies, Public Ways/Public Facilities, and Reimbursement for Sewer Construction. In total, the FY 2002-03 Proposed Budget reflects a \$0.3 million NCC increase, necessitated by higher salaries and employee benefits. Spending for the other program changes are essentially cost neutral. The Public Works' budget includes the elimination of 17.0 vacant positions.

Capital Projects/Refurbishments:

The FY 2002-03 Proposed Budget appropriates \$480.9 million to meet high-priority health, public safety, recreation, and infrastructure needs. Such projects include additional General Fund support for the:

- Construction of Sheriff stations in Palmdale and San Dimas;
- Design of the Countywide Data Center;
- Seismic retrofit projects at the County's hospitals to meet the January 1, 2008 requirements of Senate Bill 1953; and
- An inpatient building at Rancho Los Amigos National Rehabilitation Center as an alternative to the seismic retrofit of existing Rancho facilities.

The Proposed Budget also includes an increase in appropriation for the LAC+USC Medical Center Replacement Project, offset by State and federal disaster assistance monies and Bond Anticipation Note proceeds, in anticipation of the award of the construction contract in FY 2002-03. Additional appropriation is also reflected for various projects at County parks that are funded by competitive grants under the State's Proposition 12 Bond Act and the Grand Avenue Realignment and Pedestrian Improvements Project, which is funded from grant funds and other revenues.

Budget Timetable

Approved schedule for budget hearings and deliberations is as follows:

Board Action	Approved Date
Adopt Proposed Budget; order printing, notice, and distribution; and schedule hearings	April 16, 2002
Commence public budget hearings	May 15, 2002
Commence final budget deliberations, and adopt final budget upon conclusion	June 24, 2002

Prior to deliberations on the FY 2002-03 Final Budget, we will file reports on:

- May revisions to the Governor's budget and updates on other FY 2002-03 State and federal budget legislation and the impact on the County's Proposed Budget;
- Final revisions reflecting latest estimates of requirements/available funds;
- Issues raised in public hearings or written testimony;
- Recommendations on the level of Bond Anticipation Note authorization;
- Specific matters with potential fiscal impact; and
- Issues as instructed by your Board.

Approval of Proposed Budget

The matter before your Board is adoption of the Proposed Budget.

- The document must be available for consideration by the public at least 10 days prior to the commencement of budget hearings.
- Adjustments to the budget, including revisions necessary to reflect your Board's funding priorities and State and federal budget actions, can be made during budget deliberations, prior to adoption of the Final Budget.
 - Per State law, your Board may make changes to the Proposed Budget with a simple majority (3-votes) until adoption of the Final Budget, if changes are based on the permanent record developed during public hearings (e.g., Proposed Budget, budget requests, and all written and oral input by Supervisors, County staff, and the public).
 - Changes not based upon the “permanent record” require a 4/5 vote.

THEREFORE, IT IS RECOMMENDED THAT YOUR BOARD:

1. Order such revisions, additions, and changes to the Chief Administrative Officer's budget recommendations as deemed necessary, and approve the revised figures as the Proposed Budget for FY 2002-03; instruct the Auditor-Controller to have the necessary copies printed; order the publication of the necessary notices; and set May 15, 2002, as the date on which public hearings will begin.
2. Approve continued discounted prepayment of the County's retirement contribution and authorize the Chief Administrative Officer to negotiate with the Los Angeles County Employees' Retirement Association on the County's behalf in this regard.

Respectfully submitted,

DAVID E. JANSSEN
Chief Administrative Officer